GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2101
ANSWERED ON:04.08.2000
COMPOUND INTEREST OF BANK LOANS
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Will the Minister of FINANCE be pleased to state:

(a) whether nationalised banks including rural banks charge interest compounded quarterly from farmers in respect of loans given to them for various agricultural activities and non-payment of some instalment attracts penal rate of interest;

(b) if so, how far such high rates of interest have been responsible for a number of suicides by farmers and their family members; and

(c) the steps taken or being taken to review and revise the killer-rates of interest especially in respect of farmers` loans, indicating the extent of loans and credit against the farm sector, corporate sector and other sectors during the last three years?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATH) :

(a) to (c) Reserve Bank of India (RBI) has issued the following guidelines to commercialbanks regarding the procedure for compound interest on agricultural advances and charging penal interest :

i. Payment of interest should be insisted upon only at the time of repayment of loan/instalments so fixed;

ii. In respect of direct agricultural advances, banks shouid not compound interest in case of current dues, i.e. crop loans and instalments not fallen due in respect of term loans, as the agriculturists do not have any other regular source of income than sale proceeds of their crops. When crop loans or instalments under term loans become overdue, banks can add interest outstanding to the principal;

iii. Further, total interest debited to an account should not exceed the principal amount in respect of short-term advances to small and marginal farmers. RBI has alsoadvised Commercial Banks that in the case of long duration crops like sugar cane etc. banks should charge interest at annuaf rests and compound-the interest only if the loan/instalment becomes overdue.

As regards levying of penal interest rates, RBI has issued the following instructions to commercial banks :

(a) The policy of levying penal rates should be implemented with discrimination and selectivity. In order to avoid indiscriminate levy of penal rate, the decision on penal rate should be taken at a fairly higher level in each bank;

(b) No penal interest should be charged for loans upto Rs. 25,000/-;

(c) For limits over Rs. 25,000/-the aggregate penal/additional interest should not exceed 2 per cent over and above the rate of interest applicable/ normally charged to the borrowers.

Further, as per the instructions issued by Reserve Bank of India (RBI) on interest rateson lending commercial banks should not charge interest exceeding Prime Lending Rate (PLR)for loans upto Rs. 2 lakh. In respect of loans beyond Rs. 2 lakh, the interest rates have been freed. It is felt the credit policy as well as interest rates for agriculture are farmer friendly and cannot be the cause of suicides. The details of outstanding loans to agriculture granted by Public Sector Banks, as reported by RBI, for the last three years are as under:-

(Rs.in crores)

Year	Amount of Outstanding Loans to Agriculture	Total Net Bank Credit
March 1998	34304.50	218218.89
March 1999	40077.64	246203.42
March 2000	46189.55	292942.54